

COVINGTON & BURLING

1201 PENNSYLVANIA AVENUE NW
WASHINGTON, DC 20004-2401
TEL 202.662.6000
FAX 202.662.6291
WWW.COV.COM

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July 9, 2004

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Retail Directory Assistance Competition – CC Docket No. 99-273

Dear Ms. Dortch:

BellSouth recently submitted an *ex parte* letter in this docket that responds to but does not rebut the wealth of data, industry analysis and legal arguments that strongly support prompt Commission action to promote retail directory assistance (“DA”) competition.¹ BellSouth’s 30-page filing, which joins the issue, contains many arguments that miss the mark but already have been responded to by InfoNXX’s June 14, 2004, *ex parte* submission. This letter responds specifically to four key points that should be rejected by the Commission. Before turning to those arguments, however, the record needs to be clarified on the state of the DA industry.

The DA market is vital and growing. BellSouth says that the DA market is relatively small and its growth is declining,² but that must be because they want to discourage attention on this lucrative part of the business, which is, in fact, robust and growing. According to industry statistics, consumers make more than six billion directory assistance calls every year, accounting for upwards of \$6 billion in revenue.³ This market is projected to grow substantially. Two leading market analysts expect that annual directory assistance call volume will expand from approximately 6.4 billion calls in 2003 to 7 billion calls in 2008.⁴ Annual revenues from directory assistance are likewise expected to rise from more than \$5 billion in 2003 to \$7-8 billion in 2008.⁵ BellSouth says that “LEC call volumes have decreased 50-60% since 1995.”⁶ Industry analysts, however, expect that annual directory assistance call volume will expand.

¹ Letter from Mary L. Henze, BellSouth, to Marlene Dortch, FCC (June 3, 2004).

² *Id.*; see also Letter from Mary L. Henze, BellSouth, to Marlene Dortch, FCC (May 11, 2004) (\$2.12 billion revenue in 2000 and “growth rate is steadily declining” (citing Frost & Sullivan)).

³ Pierz Group (2004) (\$5.7 billion revenue in 2004); Zelos Group, Wholesale Directory Assistance: Market Review and Forecast (Jan. 2004) (\$6.3 billion revenue in 2004). Pierz and Zelos further separate these numbers into wireless and wireline components. For 2004, Zelos reports \$2.03 billion revenue for wireless and \$4.28 billion for wireline. In the same year, Pierz reports \$2.45 billion for wireless and \$3.21 billion for wireline.

⁴ Pierz Group (6.4 billion to 6.9 billion); Zelos Group (6.3 billion to 7.6 billion).

⁵ Pierz Group (\$5.3 billion to \$6.9 billion); Zelos Group (\$5.6 billion to \$8.4 billion).

⁶ Letter from Mary L. Henze, BellSouth, to Marlene Dortch, FCC (May 11, 2004).

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Even when wireless DA calls are excluded, the analysts report a very stable wireline DA market: Zelos reports 4.85 billion calls in 2003, and 4.83 billion calls estimated for 2008; Pierz reports 4.8 billion calls in 2003 and predicts 4.5 billion calls in 2008. With billions of calls generating billions in revenue, the directory assistance market is ripe for Commission action to open it to competition.

I. BellSouth's Average DA Price Claims Reflect Fuzzy Math

BellSouth previously asserted, without further elaboration, that “[t]he average price for a wireline local DA residence call is less than \$.43; average for residential call when call allowances factored in is only \$.23.”⁷ This blanket assertion can only be described as “fuzzy math,” since it belies the undisputed basic facts in the record:

- All but 5 states in the country charge *more than 43¢* for retail residential DA.⁸ How could BellSouth manipulate the data to create an average that is below the rate charged in 90% of the states?
- BellSouth's recent filing, including an economic study by Harold Ware,⁹ shows the sleight of hand.
 - Contrary to BellSouth's earlier statements, its analysis relies heavily on manipulating free call allowances to generate a flawed average.
 - The free call allowances were improperly calculated and, as a result, drastically distorted the average price.
 - BellSouth is unable to substantiate a 23¢ average price that includes free call allowances because free call allowances were already included (though improperly) in the 43¢ alleged average.¹⁰

Faulty math and false assumptions in the Ware study resulted in a deeply flawed price claim. The Ware study states: “If the residence call allowance is greater than the average number of calls per access line, *then average price per call [is] assumed to be zero.*”¹¹ But that assumption distorts the analysis.

⁷ E.g., Letter from Mary L. Henze, BellSouth, to Marlene Dortch, FCC (May 7, 2004).

⁸ As detailed on the attached chart, only five states charge less than 43¢ for retail directory assistance in all circumstances. See Attachment A. In an additional three states – Idaho, Massachusetts, and New Jersey – consumers may sometimes pay below 43¢ because of split pricing or multiple ILECs.

⁹ Harold Ware, Directory Assistance Pricing Trends (June 2, 2004) (filed with Letter from Mary L. Henze, BellSouth, to Marlene Dortch, FCC (June 3, 2004)).

¹⁰ Despite BellSouth's earlier assertion of a 23¢ average when free calls are included, it seemingly has abandoned this position and now says the average is 43¢ with free calls.

¹¹ *Id.* at Table 1, n.2.

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- The average number of calls and the average price per call are separate and distinct items. Ware has conflated the two.
- For example, assume a simple market with ten people who are permitted two free DA and then charged \$1.25 for each DA call beyond the allowance. If one person makes 19 calls, and the others make no calls, the call average is 1.9 calls per line. Because this is less than the free call allowance, Ware would conclude that the “average price per call” is zero. In fact, that assumption is completely wrong: the *real* average price per call (19 calls for \$21.25) is \$1.12.¹²
- Using this flawed assumption, BellSouth found that more than 30 of 73 jurisdictions reviewed had an “average price per call” that was assumed to be zero.¹³ When all those zeros are averaged with the other states’ rates – many of which are more than \$1.00 – the result is drastically below the actual average consumer charge for local DA.¹⁴

Even in those states where Ware did not make this fatally incorrect assumption, the calculation alleged to be the “average price per call” did not actually represent the average price a consumer paid for a local DA call.

- Ware calculated the “average price per call” by multiplying the average number of calls per line (less the call allowance) by the residential price per call, and then dividing the result by the average number of calls per line.¹⁵ That computation again conflates the average number of calls and the average price per call.
- In the ten person market example above, assume now that two people make ten calls each. Under Ware’s calculation, the “average price per call” is zero – an average of two calls per line, and a call allowance of two free calls. In reality, however, the real average price per call is \$1.00 (20 calls for \$20).

¹² In effect, Ware exploits the large number of access lines with no DA calls (fax lines, second lines, etc.) to artificially deflate the actual price that an average consumer pays for each directory assistance call.

¹³ Wireline Local DA Rates (2004) (filed with Letter from Mary L. Henze, BellSouth, to Marlene Dortch, FCC (June 3, 2004)). In addition, a comparison between this price chart and information obtained from current ILEC tariffs reveals that some of the data are out of date and do not reflect recent ILEC price increases for DA calls. For example, the rate in Michigan is not 50¢, it is \$1.25. Moreover, Missouri’s large free call allowance only applies to unpublished, nonlisted, or newly listed numbers. There is *no free call allowance* for all other numbers.

¹⁴ BellSouth’s own filing shows the 43¢ average is inaccurate. BellSouth states that 3.96 billion wireline DA calls generated \$2.3 billion in revenue, which averages to more than \$.58 per call. Competition in the US Directory Assistance Market (filed with Letter from Mary L. Henze, BellSouth, to Marlene Dortch, FCC (June 3, 2004)).

¹⁵ Ware, *supra* note 9, at Table 1, n.2.

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*Ware also apparently commingled residential data with data that included both residential and business users.*¹⁶ Ware cites Table 1 of the FCC's December 2003 Local Telephone Competition report for the source of his information on total access lines.¹⁷ Table 1 reports "End-User Switched Access Lines." As noted in Table 2 of the same report, however, a significant portion of the lines reported in Table 1 are not residential lines. Ware, however, uses the larger number, which artificial depresses the average number of calls per month and the "average price per call." Ware then factors these *residential and business* numbers with *residential* call allowances and *residential* prices per call. The resulting figures are therefore both depressed and commingled.

BellSouth's assertions are even more troubling because the incumbent LECs have access to detailed calling data but have not provided it. Without that data, it is impossible to assess accurately the impact of free call allowances on the average consumer directory assistance call price. To understand fully the effect of free call allowances, including the efforts by incumbent LECs to reduce the number of free calls, the Commission should require the LECs to disclose current and historic information on call volumes and free call allowances, the price charged for directory assistance, and other information necessary to substantiate an average price claims.

II. ILEC Tariffs Give a True Understanding of the Average Price Per DA Call

Thankfully, there are other sources of information to ascertain what ILECs charge for DA. The attached chart lists the tariffed rates that incumbent LECs charge for DA, and it includes both residential and business rates, and rates charged for local and national directory assistance. The chart reflects the most current, publicly available prices.¹⁸

- The most accurate assessment of the average DA price in an ILEC region is a population weighted average price.¹⁹ A population weighted average price reflects the true economic costs to consumers of DA services. An examination of the incumbent LECs' prices and the most recent population figures available from the U.S. Bureau of the

¹⁶ It is not possible to be certain because the study's sourcing is opaque.

¹⁷ Ware, *supra* note 9, at Table 1, n.2.

¹⁸ The figures in Attachment A reflect public tariff information as of May 31, 2004. Certain Qwest tariffs have been unavailable since January 2004, and therefore those entries list prices as of that date.

¹⁹ For example, were an ILEC to charge \$1.00 in a high population state and \$.50 in a low population state, the average price that a consumer pays in the region is not \$.75; rather, the average price for all consumers must reflect the relative populations of the two states.

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Census reveals the following population weighted average price for a directory assistance call:

LEC	Local DA	National DA
Verizon	\$0.55	\$0.98
SBC	\$0.92	\$1.42
BellSouth	\$0.76	\$1.14
Qwest	\$1.16	\$1.16

- The incumbent LECs' tariffs also demonstrate that the LECs have increasingly turned to directory assistance to supplement revenues lost in other markets on account of competition. For example, since 2001, SBC's population weighted average prices have increased 24% for local DA and 15% for national DA. Moreover, all LECs have moved aggressively to reduce free call allowances, which has a substantial effective price impact on low-volume users.
- BellSouth admits as much, stating ILECs are "Eliminating or reducing calling allowances" and "Increasing prices for DA calls."²⁰

III. Competition Will Bring Consumers More Service Choices and Better Value

BellSouth advances two arguments to explain increasing DA prices. First, *BellSouth tries to blame deregulation*, in which "ILECs were allowed to reduce or eliminate" free calls and increase consumer prices.²¹ Second, BellSouth's economist argues that ILECs "have high fixed costs" that "cannot be recovered by setting service prices *equal* to their respective incremental costs."²² These claims lack merit.

- *The retail DA market can hardly be called competitive.* As the Commission has stated, there is a "LEC monopoly over the 411 dialing code for DA."²³ Accordingly, state measures eliminating both price controls and free call allowances have deregulated *only price* in an otherwise monopoly environment. Prices have increased as a result.
- The nature of the retail market is underscored when the incumbent LECs' retail DA prices are compared with the prices charged in the wholesale market. In the wholesale market, which truly is competitive, BellSouth has offered prices as low as 20¢ per DA

²⁰ Directory Assistance Pricing Trends (filed with Letter from Mary L. Henze, BellSouth, to Marlene Dortch, FCC (June 3, 2004)).

²¹ *Id.*

²² Ware, *supra* note 9.

²³ *Provision of Directory Listing Information*, 17 FCC Rcd 1164, ¶ 14 (2002). By contrast, the Commission found in the *UNE Remand Decision* that the market for wholesale DA is competitive.

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call. In the several states where BellSouth charges retail rates of \$1.25, therefore, the company is charging *more than a 600% retail markup*.

The conclusions of the Ware paper are also undermined by the wholesale market evidence. The large disparity between wholesale and retail rates shows that high consumer prices have nothing to do with cost recovery – after all, the costs of retail and wholesale DA are nearly identical. Instead, incumbent LECs are free to demand prices well in excess of their costs by virtue of their control of the 411 dialing code.

- Incumbent LEC price hikes in the retail market have nothing to do with deregulation. In fact, if the retail market were open to competition, prices would fall – just as they have in the competitive wholesale market.
- Contrary to the Ware paper, telecommunications costs have been declining over the past decades.²⁴ With lower transmission costs and more automation, DA input costs have declined substantially – hence the declining prices in the wholesale market. Yet incumbent LEC retail DA rates go up year after year.

IV. The European Experience Shows the Benefits of Competition

BellSouth and Ware attempt to refute the substantial evidence that competition has greatly benefited European consumers by providing the Commission with selective and outdated quotes, and misleading statistics. They also take a sure sign of success – *customers exercising choice among a variety of providers* – and somehow see that as an undesirable outcome.

- BellSouth provides selected quotes from the earliest months of competition in the U.K., when the consumer benefit had not even had a chance to be demonstrated. The only critical quote from this year relates to mobile networks – over which the U.K. regulator does not even have jurisdiction.
- Most egregiously, BellSouth cites a critical report from the Zelos Group without noting a more recent report from the same author that again reviewed competition in the U.K., but this time he called it a “resounding success.”²⁵
- Ware and BellSouth both note that the average cost of a DA call in the U.K. has increased since the introduction of competition. That is true for one remarkable fact: *consumer choice at work*. As Ware and BellSouth must acknowledge, U.K. consumers have many choices for DA service at various price points, some at the low end of the

²⁴ See, e.g., *Price Cap Performance Review for Local Exchange Carriers*, 12 FCC Rcd 16642 (1997) (setting the productivity reduction “X-Factor” in LEC price caps).

²⁵ See Attachment B.

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scale and some quite higher. Evidently, many consumers, desiring enhanced services and features, are choosing to purchase them and are willing to pay more, while other U.K. consumers are opting for a lower cost service.

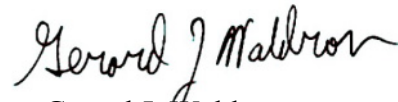
- Specifically, the price of a basic service – comparable to the service that was provided by the incumbent before competition in the U.K. – has fallen dramatically. British Telecom’s DA service was 40 pence before competition; similar services today can be had for as little as 13 pence.
- Finally, the average cost per call in the U.K. has also increased because European services have a different billing structure – billing by the minute – and the highly desirable enhanced services that consumers are choosing take more time to provide. For example, a consumer who chooses to receive driving directions or a series of movie listings will generate a much longer call time than a consumer receiving a simple listing. Comparing the higher cost of these services against the cost of the simple DA listing information provided today by the incumbent LECs is comparing apples to oranges.

Competition enhances quality. BellSouth also asserts that 99% of DA customers thought the operator “sounded professional.” This silly statistic cannot mask that fully 10% of all DA callers reported that the operators *were not able to fulfill their request for information*. The percentage of unfulfilled requests is *twice as high* in the United States as for the leading U.K. competitor.²⁶

* * *

Given that the issue has been joined by the BellSouth filing, the Commission now has adequate information to proceed promptly to promote retail DA competition.

Respectfully submitted,



Gerard J. Waldron
Brian D. Smith
Counsel for InfoNXX

²⁶ The Paisley Group reported that 10% of all DA calls are unfulfilled. Paisley Group Ltd. Comments (Jan. 2003). According to independent reporting by Salesnet Ltd., the leading provider in the U.K., “The Number,” has an unfulfilled call rate consistently below 5%.

ATTACHMENT A

Wireline Directory Assistance Rates

(as of May 31, 2004)

Bold entries are for changes to rates or terms since December 29, 2003.

Blue indicates prices of \$1.25 or more and **red** indicates prices of \$1.45 or more.

State	ILEC	Reg. Status	DA Res		DA Bus		DACC	Allowances & Exemptions	
			Local/Toll	LD	Local/Toll	LD		Calls	Handicap
Alabama	BellSouth	Reg/Pricing Flex	0.95	0.95	0.95	0.95		none	Yes(local)
Alaska	ACS/Alascom		0.60	1.25	0.60	1.25		2 free calls	
	GCI		0.50	1.99	0.50	1.99			
Arizona	Qwest	Competitive	1.15	1.15	1.15	1.15	free w/local	1 local bus & res	Yes(local)
Arkansas	SBC		1.25	1.50	1.25	1.50	0.30	none	Yes(local)
California	PAC/SBC	Regulated	0.46	1.50	0.46	1.50		local res 3, bus 0	Yes(local)
	VZ(gte)		0.46	0.95	0.46	0.95	0.45	local res 5, bus 2	Yes(local)
Colorado	Qwest	Deregulated	1.25	1.25	1.25	1.25	free + toll	none	Yes (+LD)
Connecticut	SNET/SBC	Regulated	1.25	1.25	1.25	1.25	free	none	Yes (+LD)
Delaware	Verizon	Comp/Pricing Flex	1.25	N/A	1.25	N/A		none	Yes(local)
D.C.	Verizon		0.39	1.25	0.39	1.25		local res 5	Yes (+LD)
Florida	BellSouth	Reg/Pricing Flex	0.54	1.25	0.54	1.25		none	Yes(local)
	VZ(gte)		0.60	1.25	0.60	1.25		local 3 bus & res	Yes(local)
	Sprint		0.65	0.95	0.65	0.95		local 2 bus & res	Yes(local)
Georgia	BellSouth	Reg/Pricing Flex	1.25	1.25	1.25	1.25	free	none	Yes(local)
Hawaii	Verizon		0.20	0.95	0.20	0.95	0.45	local 10 bus & res	Yes (+LD)
Idaho North	Qwest		0.35	0.85	0.35	0.85	NA	local 1 bus & res	Yes(local)
Idaho South	Qwest	Deregulated	1.25	1.25	1.25	1.25	free w/local	none	Yes(local)
Illinois	Ameritech/SBC	Comp/Pricing Flex	1.25	1.25	0.95/1.25	1.25		none	Yes(local)
Indiana	Ameritech/SBC	Comp/Pricing Flex	1.25	1.50	1.25	1.50	0.20	local res & SLB 2	Yes(local)
Iowa	Qwest	Deregulated	1.25	1.25	1.25	1.25	NA	none	Yes (+LD)
Kansas	SBC	Deregulated	1.25	1.50	1.25	1.50		none	Yes(local)
Kentucky	BellSouth	Reg/Pricing Flex	1.25	1.25	1.25	1.25	free	none	Yes(local)
Louisiana	BellSouth	Reg/Pricing Flex	0.44/1.20	1.25	0.44/1.20	1.25		local 1 bus & res	Yes(local)
Maine	Verizon		0.45	0.95	0.45	0.95		local res 3	Yes(+LD)
Maryland	Verizon		0.25	1.25	0.40	1.25		res 6 local or LD	Yes (+LD)
Massachusetts	Verizon		0.34/0.95	1.25	0.34/0.95	1.25	0.35	10 in state bus/res	Yes
Michigan	Ameritech/SBC	Pricing Flex	1.25	1.50	1.25	1.50		local res 1, bus 0	Yes(local)
Minnesota	Qwest	Competitive	0.60	1.25	0.60	1.25	0.35	local 1 bus & res	Yes(local)
Mississippi	BellSouth	Reg/Pricing Flex	0.93	1.25	0.93	1.25	0.30	none	Yes(local)
Missouri	SBC	Regulated	0.63	1.18	0.63	1.18	0.25		Yes(local)
Montana	Qwest	Competitive	0.95	0.95	0.95	0.95	0.35	local res 3	Yes(local)
Nebraska	Qwest	Deregulated	1.25	1.25	1.25	1.25	free w/local	none	Yes (+LD)
Nevada	PAC/SBC	Regulated	0.85	1.25	0.85	1.25	0.45	local res 3	Yes(local)
	Sprint		1.45	1.45	1.45	1.45	free	none	Yes(local)
New Hamp.	Verizon	Regulated	0.40	0.95	0.40	0.95	0.35	local 5 bus & res	Yes(local)
New Jersey	Verizon	Competitive	0.50/0.75	1.25	0.75	1.25	0.30	local res 4	Yes(local)
	Sprint		0.20	0.95	0.20	0.95		res 10, bus 0	Yes
New Mexico	Qwest	Regulated	0.69	0.85	0.69	0.85	0.35	none	Yes(local)
New York	Verizon	Regulated	0.80	1.25	0.80	1.25	0.35	none	Yes (+LD)
N. Carolina	BellSouth	Regulated	0.52/0.50	0.85	0.52/0.50	0.85		local 4 bus & res	Yes(local)
N. Dakota	Qwest	Non-regulated	1.25	1.25	1.25	1.25	free w/local	none	No
Ohio	Ameritech/SBC	Regulated	1.10	1.25	1.10	1.25		none	Yes(local)
Oklahoma	SBC	Regulated	0.49	1.50	0.49	1.50	0.25	local res 3, bus 1	Yes(local)
Oregon	Qwest	Regulated	0.50	0.85	0.50	0.85	0.35	local 2 bus & res	Yes(local)
Pennsylvania	Verizon	Regulated	0.57	0.95	0.57	0.95	0.30	res 2, dorms 2	Yes (+LD)
Puerto Rico	PRTC		0.75	N/A	0.75	N/A	0.30	none	
Rhode Island	Verizon	Comp Svc Gp IV	0.55	1.25	0.55	1.25	0.35	res 5, bus 3	Yes(+LD)
S. Carolina	BellSouth	Comp/Pricing Flex	1.25	1.25	1.25	1.25		res 2 local	Yes(local)
S. Dakota	Qwest	Competitive	1.25	1.25	1.25	1.25	free w/local	none	Yes(+LD)
Tennessee	BellSouth	Regulated	0.40	0.85	0.40	0.85	0.45	local 6 bus & res	Yes(local)
Texas	SBC	Pricing Flex	1.25	1.50	1.25	1.50	0.25	res 3 local or max 6 listings	Yes(local)
	VZ(gte)		1.25	1.25	1.25	1.25		res 3 local +1/HNPA call	Yes(+LD)
	Sprint		1.45	1.45	1.45	1.45		res 3 local	Yes(+LD)
Utah	Qwest	Competitive	1.25	1.25	1.25	1.25	free w/local	none	Yes(+LD)
Vermont	Verizon		0.64	0.95	0.64	0.95	0.35	res or stud. ctrx 3 local	Yes(+LD)
Virginia	Verizon		0.29	1.25	0.29	1.25		res & bus 3 local	Yes(+LD)
Washington	Qwest	Competitive	1.25	1.25	1.25	1.25	free w/local	none	No
	Verizon		0.95	1.25	0.95	1.25	free	local res 2, bus 1	Yes(+LD)
West Virginia	Verizon	Competitive (III)	0.70	1.25	0.70	1.25		res & dorms 2 local	Yes(+LD)
Wisconsin	Ameritech/SBC	Pricing Flex	1.25	1.50	1.25	1.50		none	Yes(local)
Wyoming	Qwest	Non-regulated	1.25	1.25	1.25	1.25	free w/local	none	Yes(+LD)

ATTACHMENT B

INFONXX's Competitive DA Play: One Year In

The UK is the latest of three top European markets to open up its DA market, and the first targeted by INFONXX. One year after INFO's market entry, it's safe to call its 118 118 retail play, The Number, a resounding success. With 45-50% share of what is still a 200+ million pounds market, INFONXX has become the largest non-telco DA provider in the world.

U.S. incumbents and DA platform providers, wholesalers, and listings providers all have a stake in understanding what happened in the UK a year ago, when INFONXX launched a strategy aimed at taking market share away from BT Retail. Following a rulemaking in late 2001, INFONXX executed almost flawlessly on a plan to crack a lucrative market where regulators had mandated a phased withdrawal of the monopoly 192 DA code. The lessons for regulators and market participants here in the U.S. may be relevant as the FCC and NARUC continue to nudge competitive 411 up on their respective dockets.

Lesson #1: Clear Positioning in a Murky Market. From its first advertising buys in March of 2003 - almost six months ahead of the planned switchover to numbering parity and the end of the old 192 code -- executives at The Number dug into their playbook acquired from previous stints at Virgin and Orange to create a brand with a distinct personality and clear mission. Embodied in the form of two slightly-crazed marathon runners, each wearing one-half of the 118 118 number, The Number orchestrated a memetic phenomenon that by the time the first wave was finished had photos of the pair hanging in barbershop windows. More importantly, they invested in brand equity early, while competitors and BT itself were keeping their powder dry waiting for the August switchover.

The Number spent heavily in the market in the run-up to switchover. The only player that spent more, Conduit,

May 10, 2004

Author

Mark Plakias

ultimately went bust. In retrospect, most participants agree that spotty messaging during the transition period, both by BT and by the British regulator Oftel (now Ofcom), was unfortunate. In the finger-pointing that has followed a clear drop in overall call volume since competition, some of those fingers have pointed at Oftel, the UK regulator who decided not to mount any kind of consumer educational campaign beyond an informational website.

By letting the invisible hand of the market point the way forward, Oftel brought about the worst possible outcome. It ended up having to slap the wrist of BT's not-so-invisible hand, who's educational message about the demise of 192 simply stated that its number (118 500) would be the 'new' number.

Lesson #2: Classic Deregulatory Rationale Does Not Apply. Driving all of The Number's messaging to the consumer was a value proposition that was simple and direct - we're working hard to bring to market the most accurate listings in a friendly service. This value prop falls outside the tried-and-true triad of pro-competitive justifications: lower cost, more choice, and more innovation. In ads that poked fun at the legacy BT service, The Number argued that friendly service was an innovation compared to BT operators who asked for more information than they provided in some cases. Additionally, work on database hygiene - including the addition of what is, by U.S. standards, EDA features (movies listings, category search, etc.) - was in the context of UK, innovation.

However, the increasingly cluttered and noisy marketplace actually served to impede delivery of innovation, as executives at The Number worried whether consumers were being overloaded with too many mixed signals about the basics of product, price, and packaging. Today, those executives point to call completion, a capability that was not in existence prior to competition and is now used by 40 percent of their customers, as an example of innovation. Again, the danger of using the UK as a guide to the U.S. is shown by the paucity of the product prior to deregulation.

By letting the invisible hand of the market point the way forward, Oftel brought about the worst possible outcome.

That said, the lesson appears to be that clear execution of a coherent value proposition trumps assumptions about commoditization and maximization of choice. Striking a balance between much-needed innovation (such as call completion) and clear positioning, The Number appears to have tapped into what Barry Schwartz calls "The Paradox of Choice" (in a book by the same name) - at a certain point, consumers just want their needs to be satisfied, not ever-expanding choices and gee-whiz features.

Lesson #3: Act Global, Spend Local. While the parent company must look forward to seeing its UK investment yield positive EBITDA in 2004, it adopted a position early on of yielding autonomy to the local management team. With a call center built in Wales (where several competitors also settled), the team invested heavily in dealing with infrastructure and database issues. These included trying to find a workaround for the intractable issue of settlements with different mobile network providers for access charges. This problem ultimately proved uncrackable (even today, the retail price advertised by the 118 provider may be impacted by mobile carrier charges to yield a different price than advertised). Additional investments were required in normalizing BT's aggregated listings product, OSIS, which some claim even today cannot support wireless listings.

The trans-Atlantic model built by INFONXX is not unique in the annals of DA - Telegate, which built its story in the original deregulated market of Germany, tried to expand into the U.S. via a post-IPO acquisition, with disastrous results. Excell Agent Services has extended into Canada and Australia, but did so through joint ventures that granted it little equity. INFONXX has attained the best of both worlds, a strong local presence backed by a privately-held corporate war-chest. Can it get better? Yes - in April INFONXX locked in a \$40 million line of credit.

Lesson #4: In a Devolved Duopoly, at least somebody is happy. In a previous document about the UK market ("The Regulator's Dilemma", February, 2004), we noted the leitmotif (Ireland, Germany, and now the UK all fit this mold) of deregulated DA markets ending up with two strong

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players. The first is a reduced incumbent, doubly so because overall market volume as well as share went down, and a very happy fellow duopolist.

The lessons drawn here for the U.S. need to be tempered by grasping some fundamental differences. First, the UK version of 411 (the 192 code) was free until the early '90s - at the time of its demise, 22 percent of Britons still thought it was. Secondly, and this might be a complete lesson in itself, the process of branding numbers tends to defocus attention from the owning entity. That said, the startling fact is that by the time of the switchover, according to research from a third-party (Performance House), the most-recalled 118 number in the UK was 118 118, with two-thirds of respondents citing it when asked to name a number. As seen in Germany, strong execution by a focused challenger leads to a duopoly, with the possibility of further share gains established.

Summary: Competition Can Deliver Differentiated Services. The UK experience of INFONXX clearly demonstrates that a focused competitor with financial strength can rise above the clutter and noise engendered by deregulation to deliver a branded offering that is clearly differentiated from what came before. What may be counter-intuitive is that differentiation is not necessarily along classic deregulatory outcomes of lower cost, more choice, more features.

In a relativistic perspective, it may well prove that deregulation of discretionary services such as 411 also brings out marginal players not capable of much more than confusing customers - making the focused challenger all the more appealing. In this admittedly hypothetical view, those new players who have been through the exercise before will have a decided advantage over both incumbents and the rest of the pack.

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